THE EFFECT OF INVESTMENTS AND GOVERNMENT EXPENDITURE TOWARDS ECONOMIC GROWTH OF DISTRICTS/CITIES IN WEST JAVA 2016 - 2020

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Abstract
This study aims to determine the effect of investment and government expenditure on the economic growth of districts/cities in the province of West Java. Data obtained indirectly obtained by researchers through other parties. Data in the form of annual investment and government spending, as well as Gross Regional Domestic Product (GRDP), were collected from 2015 to 2020 and covered 12 districts/cities in West Java. The data analysis method used in this study is multiple linear regression using SPSS software. The results show that there is a positive and significant effect of investment on economic growth, there is a negative and significant effect of government spending on economic growth, there is a simultaneous effect of investment and government spending on economic growth.

Keywords:
Investments, Government Expenditure, Economic Growth

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INTRODUCTION

Economic growth, defined as the difference between the internal output of one year and the previous year, which shows a significant effect. The development strategy implemented is one of the main factors to measure the effectiveness of economic development (D. N. Sari et al., 2017). Economic growth cannot be separated from the ability of the community to increase the production of goods and services in their economic activities. Economic growth is one of the most important metrics for assessing the economic development of a country or region. Economic growth will produce greater wealth for the people in a certain period of time because economic activity requires the use of various modes of production to make goods.

Based on the data above, it is clear that Indonesia's economic growth is declining. Indonesia's economic growth in the first quarter of 2020 was 2.97 percent. Over the last ten years, this economic growth has tended to decline. Slow economic growth and even this recession since 2020 really have an effect in many areas of life (Ahmad, 2022). This direct impact on the economy initially occurred as a result of government policies, in particular the Large-Scale Social Restrictions (PSBB) in various urban areas in Indonesia which took place in early April 2020.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DKI Jakarta</td>
<td>5.85</td>
<td>6.20</td>
<td>6.17</td>
<td>5.89</td>
<td>-2.39</td>
</tr>
<tr>
<td>2</td>
<td>Jawa Tengah</td>
<td>5.28</td>
<td>5.27</td>
<td>5.32</td>
<td>5.41</td>
<td>-2.65</td>
</tr>
<tr>
<td>3</td>
<td>Jawa Barat</td>
<td>5.67</td>
<td>5.33</td>
<td>5.66</td>
<td>5.07</td>
<td>-2.53</td>
</tr>
<tr>
<td>4</td>
<td>Jawa Timur</td>
<td>5.57</td>
<td>5.46</td>
<td>5.50</td>
<td>5.52</td>
<td>-2.33</td>
</tr>
<tr>
<td>5</td>
<td>DI Yogyakarta</td>
<td>5.05</td>
<td>5.26</td>
<td>6.20</td>
<td>6.60</td>
<td>-2.68</td>
</tr>
<tr>
<td>6</td>
<td>Banten</td>
<td>5.26</td>
<td>5.75</td>
<td>5.82</td>
<td>5.53</td>
<td>-3.39</td>
</tr>
<tr>
<td>7</td>
<td>Nasional</td>
<td>5.03</td>
<td>5.07</td>
<td>5.17</td>
<td>5.02</td>
<td>-2.07</td>
</tr>
</tbody>
</table>

Source: Processed by simreg.bappenas.go.id
Based on table 1, West Java compared to DKI Jakarta, Central Java, East Java, and Banten in 2015 was included in the slow region and in 2016 compared to DKI Jakarta, West Java was also included in the slow region. West Java in 2017 when compared to DKI Jakarta, East Java, and Banten are also included in the slow region. In 2018, West Java was also a slow region compared to DKI Jakarta, the Special Region of Yogyakarta, and Banten. In 2019, the economic growth rate of West Java compared to DKI Jakarta, the Special Region of Yogyakarta, Central Java, East Java, and Banten was also included in the slow regions, and when compared to the previous year, it also experienced a considerable decline.

One of the factors that is no less important in increasing regional economic growth is capital accumulation or investment, both government investment and private investment. Investment is needed to support economic growth as capital stock such as Domestic Investment (PMDN) and Foreign Investment (PMA). Depending on the level of productivity, the more savings that are then invested will accelerate economic growth.

**Tabel 2. Development of Realization of Foreign Direct Investment & Domestic Investment in West Java Province**

<table>
<thead>
<tr>
<th>Tahun</th>
<th>PMA (US$ Ribu)</th>
<th>PMDN (Rp. Juta)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>5,738,714.3</td>
<td>26,272,867.8</td>
</tr>
<tr>
<td>2016</td>
<td>5,470,854.9</td>
<td>30,360,209.6</td>
</tr>
<tr>
<td>2017</td>
<td>5,142,948.5</td>
<td>38,390,637.9</td>
</tr>
<tr>
<td>2018</td>
<td>5,573,518.0</td>
<td>42,278,211.6</td>
</tr>
<tr>
<td>2019</td>
<td>5,881,046.4</td>
<td>49,431,191.3</td>
</tr>
<tr>
<td>2020</td>
<td>4,970,000.0</td>
<td>51,400,000.5</td>
</tr>
</tbody>
</table>

Source: Badan Koordinasi Penanaman Modal (Processed)

From the table above, we can see West Java needs to increase investment and to create a conducive climate so that investors are interested in investing their capital. This is based on the strong desire by the Governor of West Java and to make investments more equitable, because more equitable investment is able to sustain and increase economic growth. Due to the fact that investment in West Java Province is not evenly distributed in every region, because not every Regency or City has an investment value.

The role of the government in providing funds for development initiatives in both the economic and non-economic sectors is closely related to regional economic progress. Government expenditure is the cost of these projects (Karya & Syamsuddin, 2016). Government spending can be defined as the use of funds and land resources to finance a country or government activity so that the government can fulfill its role in livelihood management.

Because it will be able to build the type of infrastructure needed for development, this government expenditure will have an impact on economic activity. The Central Revenue Fund (Main Supporting) and Regional Original Revenue (PAD) are used to fund government expenditures in the Regional Revenue and Expenditure Budget (APBD). Inclusive and sustainable economic growth is a goal for all regions in Indonesia. However, there are factors that can affect the high or low level of economic growth of a
region. So researchers are interested in discussing the Effect of Government Expenditure
and Investment on Economic Growth in Regencies / Cities in West Java.

THEORETICAL BASIS

The theory of economic growth developed by the Neo-Classical
emphasizes the role of capital owned by a country. Capital sourced from
within the country and abroad will help the economy of a country.
Domestic investment or also known as Domestic Investment (PMDN) is
considered to be able to encourage the economy of a developing country
very well, where if the investment that occurs in the country has
increased it will increase economic growth (Jufrida et al, 2016).

Investment plays an important role in the economic growth of
developing countries. It affects employment scenarios, production, prices,
income, imports, exports, the general welfare of the receiving country,
and the balance of payments and serves as one of the important sources of
economic growth (Hussain and Haque, 2016).

Economic growth as a benchmark for a country or region, is also
inseparable from the role of the government in providing funds to finance
development activities both in the economic and non-economic fields. The
costs of these activities are often referred to as government expenditures.
Regional government spending is measured by the total direct and
indirect expenditures allocated in the regional budget (M. Zahari, 2017).

Government spending, either by the central government or local governments, has an
impact and influence on regional economic growth. Keynesian concepts show that the role of
government is very large in creating economic growth. In addition to local government
spending, there are other factors that are considered to be able to contribute to increasing
the percentage of economic growth in the region. This includes private investment (Erjergit
et al., 2021).

Ambok Pangiuk (Pangiuk, 2017) argues that government spending can affect
economic activity, this is because it can create various infrastructures needed in the
development process. Government expenditure as reflected in the APBD (regional
expenditure revenue budget) is a form of government capital accumulation that is used to
encourage economic growth of a region. Ambok Pangiuk (Pangiuk, 2017) also argues that
adequate investment will have a positive impact on the economic condition of the country or
region, because with adequate investment capital will be available, the presence of investors
who invest their capital will certainly increase production which will later produce high
output. , and will increase local revenue from taxes paid to the government. Harrord-Domar
said that to be able to grow the economy of a country or region, an investment which is a net
addition to the capital stock is needed (Wahana, 2020).

Central assistance and local revenue (PAD) are sources of government expenditure
which are shown in the Regional Revenue and Expenditure Budget (APBD). The economic
growth of a region is encouraged through this APBD, a type of government capital
accumulation. Government expenditures are intended to support the development of
facilities and infrastructure that can support the efficiency of commercial operations and the
provision of public services. Apart from government spending, adequate investment will also
have a positive impact on the economy. This is because when there is sufficient investment
capital available, more investors will be more likely to invest their money, which will
increase production, which will then result in higher output and higher income, which will
increase tax revenue for the government. Capital formation is seen as an investment that
increases the capacity of the economy to produce goods and as an investment that increases the effective demand of society as a whole (Pangiuk, 2017).

Based on the explanation of the conceptual description and theoretical framework above, the hypothesis of this study is as follows:

H1: There is a positive effect between investment on economic growth
H2: There is a positive effect between Government Expenditure on economic growth
H3: There is a positive effect between investment and Government Expenditure on economic growth

METHOD

The ex post facto research method was used in this study, and the type of data used was secondary data. Secondary data is information collected and taken from the results of field studies by third parties, both in qualitative and quantitative forms (Teguh, 2005). The Ex Post Facto approach is a research method used to find events that have occurred and then trace back to determine the elements that may have caused them (Sugiyono, 2008). This method was chosen because it is consistent with the goal to be achieved, namely obtaining data from time sequences.

Secondary data in the form of annual investment and government spending, as well as Gross Regional Domestic Product (GRDP), are used in this study. The data was collected from 2015 to 2020 and covers 12 districts/cities in West Java with a total of 108. Secondary data is data obtained indirectly by researchers through other parties. Secondary data can be in the form of documentation data or reports that are already available. Panel data used from 2015 to 2020 created by integrating time series and cross section data.

RESULTS AND DISCUSSION

In this study there are three variables, namely two independent variables and one dependent variable. Government investment and expenditure are independent variables of the study because they have an influence. Economic growth which is the dependent variable in this study is the affected variable.

The expansion of the Gross Regional Domestic Product (GRDP), both at current prices and at constant prices, is usually seen as one of the benchmarks for the success of development in the areas required for macroeconomic evaluation and planning.

A. Result of Multiple Linier Regresion Test
Based on table 4, the multiple regression equation is as follows:

\[ \hat{Y} = -4.544 + 0.305X_1 - 0.434X_2 \]

The constant value -4.541 in the table above shows that if investment and expenditure are both 0, then economic growth is -4.541. The investment variable (X1) has a regression coefficient of 0.305, which means that if investment increases by 1, economic growth will increase by 0.305. The X1 coefficient is positive which indicates that if investment increases then economic growth increases, and vice versa if investment decreases, economic growth decreases. This shows that the more investment there is, the better the economic growth will be.

The expenditure variable (X2) has a regression coefficient of -0.434, which means that if investment increases by 1 unit, economic growth will decrease by 0.434. The X2 coefficient is negative which indicates that if government spending increases then economic growth decreases, and vice versa if government spending decreases then economic growth increases. This shows that the smaller the government spending, the better the economic growth will be.
The t value of "Investment" (X1) is 2.515 based on the results of the coefficient table above. With the formula $df = n - k - 1$ (n is the amount of data, and k is the number of independent variables) or $12 - 3 - 1 = 8$, the $t_{table}$ is 1.859. So it can be said that there is a partial relationship between investment and economic growth, so this hypothesis is accepted. This is, based on the results of $t_{count} > t_{table}$ which is $2.515 > 1.859$.

The t-count value of "Expenditure" (X2) is -2.676 based on the results of the coefficient table above, has a negative direction. With the formula $df = n - k - 1$ (n is the amount of data, and k is the number of independent variables) or $12 - 3 - 1 = 8$, the $t_{table}$ is 1.859. So it can be said that there is a negative relationship between spending and economic growth, so this hypothesis is accepted. This is, based on the results of $t_{count} > t_{table}$, which is $2.676 > 1.688$.

2. F Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>.015</td>
<td>2</td>
<td>.007</td>
<td>3.674</td>
<td>.032b</td>
</tr>
<tr>
<td>Residual</td>
<td>.114</td>
<td>57</td>
<td>.002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.129</td>
<td>59</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed by Researcher, 2022.

Based on table 4.12, the significant value for Investment and Expenditure is 0.032 less than 0.05 ($0.032 < 0.05$), so H0 is rejected and H3 is accepted. In other words, investment and expenditure have a simultaneous effect on economic growth.

C. Discussion

Based on the results of the requirements test and classical assumption test, it can be said that the economic growth research data of 12 districts/cities is considered to meet the calculation requirements for the multiple regression testing stage, hypothesis testing and analysis of the coefficient of determination. In the calculation $\hat{Y} = -4,544 + 0.434X_1 + 0.05X_2$, from the regression equation, it can be seen that the constant obtained is -4.544. This shows that if the independent variables, namely Investment (X1),
and Government Expenditures (X2) have a value of 0, then the value of Economic Growth (Y) is -4.544. Furthermore, from the results of the autocorrelation test, the DW value obtained is 2.200. Based on the conditions of the Durbin Watson test as stated above that $dU < DW < 4 - dU$; means that there is no positive or negative correlation. $4 - dU = 4 - 1.579 = 2.421$, it can be seen that $1.579 < 2.200 < 2.421$. It can be concluded that the regression model above has no autocorrelation problem.

Economic growth is positively related to the investment variable (X1). The X1 coefficient is positive, indicating that if investment increases then economic growth increases, and vice versa if investment decreases, economic growth decreases. An increase in the value of one unit of investment will increase the value of economic growth by 0.305. This shows that the higher the investment, the higher the economic growth. The results of this study are also supported by research conducted by (Pratama & Utama, 2019), (C. N. P. Sari et al., 2019) which says that the investment variable has a significant and positive relationship to economic growth.

The expenditure variable has a negative relationship with economic growth. The government spending coefficient is negative which indicates that higher government spending will not have an impact on economic growth. On the other hand, the absence of physical investment and the government’s failure to prioritize the productive sector in allocating the budget to 12 districts and cities in West Java Province may be the cause. This is in line with research conducted by (MS, 2020), (Ruslam & Anwar, 2020), (Mokoginta et al., 2019), (Kharisma & Pratikto, 2018), (Dudzevičiūtė et al., 2018), which said that the government expenditure variable has a significant and negative effect on economic growth. This shows that local governments must reduce routine expenditures to encourage economic growth.

For the calculation of the hypothesis, F test is carried out by obtaining a significant value for Investment and Expenditure, namely 0.032 less than 0.05 (0.032 < 0.05), so $H_0$ is rejected and $H_3$ is accepted. In other words, investment and expenditure have a simultaneous effect on economic growth.

Furthermore, the t-test is carried out by obtaining the value of $t_{count}$ on the Investment variable (X1) of 2,515 and $t_{table}$ of 1,859. Based on the results of $t_{count} > t_{table}$, namely 2,515 > 1,859, it can be said that there is a partial relationship between investment and economic growth, so this hypothesis is accepted. Then, the acquisition of the $t_{count}$ value on the government expenditure variable (X2) is obtained by 2,676. Based on the results of $t_{count} > t_{table}$, namely 2,676 > 1,688, it can be said that there is a negative relationship between expenditure and economic growth, so this hypothesis is accepted.

CONCLUSIONS AND SUGGESTION

A. Conclusions

1. There is a positive and significant effect between investment and economic growth of $t_{count} > t_{table}$, namely 2,515 > 1,859. The increase in existing investment will encourage economic growth in 12 districts/cities of West Java Province. On the other hand, if the existing investment decreases, then economic growth will also decrease.

2. There is a negative and significant relationship between government spending and economic growth of $t_{count} > t_{table}$, which is 2,676 > 1,688. The government spending coefficient is negative which indicates that higher government spending will not have an impact on economic growth.
spending will not have an impact on economic growth.

3. The calculation of the hypothesis is carried out by calculating F by obtaining a significant value for Investment and Expenditure, namely 0.032 less than 0.05 (0.032 < 0.05), so H0 is rejected and H3 is accepted. In other words, investment and expenditure have a simultaneous effect on economic growth.

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